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Zetwerk Manufacturing Businesses Pvt Ltd: Provisional [ICRA]A+(SO) assigned to Series A1 PTC and Provisional [ICRA]BBB+(SO) assigned to Series A2 PTC to be issued by Corporate Receivable Securitisation Trust

Summary of rating action

Trust Name	Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Corporate Receivable Securitisation Trust	Series A1 PTC	37.50	Provisional [ICRA]A+(SO); Assigned
	Series A2 PTC	7.50	Provisional [ICRA]BBB+(SO); Assigned

**Instrument details are provided in Annexure I*

Rating in the absence of pending actions/documents	No rating would have been assigned as it would not be meaningful

Rationale

ICRA has assigned provisional ratings to the pass-through certificates (PTCs) to be issued under a securitisation transaction originated by Zetwerk Manufacturing Businesses Pvt Ltd and its subsidiaries (viz. Sharp Tanks and Structurals Pvt Ltd, Pinaka Aerospace Solutions Pvt Ltd and Zetfab India Pvt Ltd; collectively referred as to as the originators). The PTCs are backed by a pool of cumulative trade receivables of Rs. 57.57 crore arising from the invoices raised by the originators on their customers (buyers) against the supply of goods to the buyers.

The ratings factor in the moderate to strong credit profiles of the buyers, comprising well-established and financially strong entities with domestic credit ratings of BBB+ and above. The ratings also consider the stringent pool eligibility criteria during the replenishment period of the transaction and the integrity of the legal structure. The availability of credit enhancement (CE) in the transaction in the form of (i) a cash collateral (CC) of Rs. 2.50 crore to be provided by the originators, and (ii) principal subordination, i.e. 25.00% of the eligible finance value of invoices[1] for Series A1 PTC and 10.00% of the eligible finance value of invoices[1] for Series A2 PTC, supports the credit profile of the rated instruments. The ratings are also supported by the established relationship between the originators and the buyers.

The ratings are, however, constrained by high buyer concentration. Further, the securitised receivables would be in the form of contractual payments to be received from the buyers and not a financial obligation. ICRA also notes that the originators meet a relatively small share of the procurement needs of the buyers. The provisional ratings are subject to the fulfilment of all the conditions under the structure, due diligence audit of the pool, review by ICRA of the documentation pertaining to the transaction, and the furnishing of a legal opinion.

Key rating drivers

Credit strengths

- Pool's quality supported by stringent pre-defined eligibility criteria of the invoices
- Presence of CE in the form of CC and principal subordination
- Established relationship between originators and buyers
- Moderate to strong credit profile of the buyers whose invoices will be assigned

[1] Eligible finance value of invoice for the transaction is Rs. 50.00 crore, which is arrived at after discounting the trade receivables of Rs. 57.57 crore at a rate of 12% p.a.p.m.

Credit challenges

- Exposure to any delays in payments by buyers, as payment obligation from buyer is only a contractual payment
- High buyer concentration risk
- Originators meeting relatively small share of procurement needs of buyers

Description of key rating drivers highlighted above

The trustee shall settle a trust backed by the invoices raised by the originators with the cumulative future receivables of Rs. 57.57 crore. The invoices in this trust will have bankruptcy remoteness from the originators. The trust will issue three series of PTCs backed by the receivables. The upfront purchase consideration to be paid by Series A1 PTC to the trustee will be 75.00% of the eligible finance value of the invoices, i.e. Rs. 37.50 crore, while it will be 15.00%, i.e. Rs. 7.50 crore, for Series A2 PTC and 10.00%, i.e. Rs. 5.00 crore, for Series A3 PTC. The transaction timeline consists of a replenishment period spanning 13.5 months from the date of issuance of the PTCs. During this period, the cash flows from the maturing invoices will be utilised to purchase further invoices, which mature not more than 14.5 months from the PTC issuance date. The amortisation period will commence after 13.5 months from the PTC issuance.

The expected payouts for Series A1 PTC (interest and principal) would be made in three equal instalments, i.e. at the end of 14 months, 14.5 months and 15 months, respectively. While the interest on the PTC securities, at predetermined rates on the outstanding principal, is expected to be paid on a semi-annual basis, it is promised on the final scheduled maturity date. The payouts for Series A2 PTC will be made once Series A1 PTC has been fully redeemed. The principal and interest are promised to Series A1 and Series A2 PTCs on the final maturity date, which is 21 months post the PTC issuance date. This provides an additional cushion of six months to factor in any delays in payments from the buyers.

The first line of support for Series A1 PTC in the transaction is in the form of a principal subordination of 25.00% of the eligible finance value of invoices (comprising the principal payable to Series A2 and Series A3 PTCs). After Series A1 PTC has been fully paid, subordination of 10.00% of the eligible finance value of invoices (comprising the principal payable to Series A3 PTC) could be available for Series A2 PTC. A CC of Rs. 2.50 crore (5.00% of the initial eligible finance value of invoices), to be provided by the originators, would act as further CE in the transaction. In the event of a shortfall in meeting the promised PTC payouts, the trustee will utilise the CC to meet the same.

The underlying pool would consist of trade receivables arising from the invoices raised by the originators against the goods supplied to the buyers. For each invoice, an accepted goods receipt note from the appropriate authority is to be provided by the buyer. ICRA notes that the payments from the buyers would be received in designated escrow accounts operated by the originators and would then be passed on to the Trust and Retention Account of the PTC trust. The allocation and calculation of amounts to be transferred between various accounts will also be determined by a chartered accountancy firm, to be agreed upon by the originators and the buyers. Though there would be commingling of funds, ICRA notes that the risk is partially mitigated by the automatic sweep mechanism.

The replenished pool will be guided by stringent eligibility criteria. Key eligibility criteria are mentioned below:

- Invoice maturity date should be at least 15 days prior to the expected PTC maturity date
- Originators should have a relationship of at least 12 months with the buyer
- Credit notes per buyer should not exceed 7% of the trade receivables drawn by the originators over the last 12 months
- Buyers for whom credit notes are more than 4% should not exceed 10% of the trade receivables
- Buyers should never have been in the 30+ days past due (dpd) category during three months prior to assignment; not more than 5% of the trade receivables should be more than 30 dpd
- Buyers should not be delinquent on any other financial obligations
- No overdue invoices at the time of initial as well as subsequent assignments during the replenishment period
- Any monies due as retention amount would not be taken into consideration
- A Chartered Accountant's (CA) certificate would be provided at monthly intervals for the above covenants

The buyers also have moderate to strong credit profiles, minimising the default risk, though ICRA notes that the trust would be seen as an operational creditor of the buyers. Thus, the risk of non-payment by buyers can be deemed to be higher vis-à-vis the obligations to its financial creditors. Nonetheless, the originators would be assigning their rights, title and interest in the receivables to the trust, and the trust would therefore be entitled to all the rights under the Insolvency and Bankruptcy Code, 2016, which would be a mitigant. Comfort can also be drawn from the predefined trigger events. The breach of any trigger events would lead to the early amortisation of the PTC instruments, thereby mitigating the risk of a deterioration in the credit quality of the originators, the buyers and the pool.

While the originators have established relationships with most of the buyers, they would be meeting a relatively small share of the procurement needs of the buyers, given the large scale of operations of the latter. ICRA, however, takes comfort from the past track record of payments from the buyers that have been largely within the contractual terms so far. As the pool would remain concentrated with the top buyer exposure capped at 15%[2], the transaction would remain exposed to any material disputes between the buyer and the originators such that the buyer does not honour the obligated payments.

Key rating assumptions

ICRA's cash flow modelling for rating securitisation transactions involves the simulation of potential losses in the pool. ICRA's rating assumption on the quality of the cash flows being securitised, along with the tenure of the payments, has been taken into account to estimate the default probability on each of the underlying buyer payments. Additionally, a certain degree of correlation is assumed in the performance of the various entities in the pool as they are in the same sector/sub-sector. ICRA has also taken note of the originator's track record in the business. Moreover, the cash flow modelling considers the assumptions on the build-up of delinquency/loss and the transaction structure.

Liquidity position: Adequate

As per the transaction structure, both the interest and the principal amount are promised to the PTC holders on the scheduled maturity date of the transaction. The cash flows from the pool and the available CE are expected to be adequate to meet the promised payouts to the PTC investors.

Rating sensitivities

Positive/Negative factors – The ratings are unlikely to be revised during the replenishment period. Any rating revision would depend on the performance of the underlying pool and the CE utilisation during the amortisation period. The ratings would also be sensitive to the credit profile of buyers and the track record of payments in the normal course of business. The ratings could be downgraded on non-adherence to the key transaction terms envisaged at the time of providing the rating.

Analytical approach

The rating action is based on the legal structure of the transaction and factors in the payment mechanism along with the credit profile of the buyers.

Analytical Approach	Comments
Applicable rating methodologies	[Rating Methodology – Collateralised Debt Obligations]
Parent/Group support	Not Applicable
Consolidation/Standalone	Not Applicable

[2] *Concentration per buyer is capped at 15% if the buyer has a credit rating in the AA or AAA category, at 10% if the credit rating is in the A category, and at 5% if the credit rating is BBB+ {such that buyers with BBB+ ratings would not exceed 10% of the pool}*

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned ratings are provisional and would be converted into final upon the execution of:

1. Offer document
2. Trust deed
3. Deed of assignment and collection agreement
4. Legal opinion
5. Master Receivable Purchase Agreement between clients and assignor and associated documents
6. CA Certificate
7. Other document (as applicable)

Validity of the provisional rating

The trust is expected to complete the pending actions/execute the pending documents in the near term. However, in case of continued pendency of the actions/documents beyond one year of this publication, the provisional ratings would be withdrawn for the transaction even if the instrument has been issued.

Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed for the transaction within one year (validity period) from the assignment of the rating, the provisional ratings will be withdrawn in accordance with ICRA's Policy on Provisional Ratings available at www.icra.in.

About the originators

Zetwerk Manufacturing Businesses Pvt Ltd (Zetwerk) was founded in 2018 and is headquartered in Bengaluru, Karnataka, India. It is an end-to-end manufacturing supply chain solutions provider. Zetwerk is a managed marketplace for contract manufacturing, connecting industrial and consumers to small manufacturers via online network. Zetwerk facilitates supplier selection, pricing, and order fulfilment. Zetwerk operates across industries like oil & gas, renewables, consumer electronics, etc. which endeavours cost-effective production through its proprietary technologies which enables digital supply selection, real-time tracking, visual progress updates, stakeholder communication and quality assurance. For manufacturing partners, Zetwerk offers services like logistics and raw material procurement for revenue growth and cost optimization.

Selected subsidiaries of Zetwerk would also act as originators for the transaction, viz. Sharp Tanks and Structurals Pvt Ltd (100% subsidiary), Pinaka Aerospace Solutions Pvt Ltd (66% subsidiary), and Zetfab India Pvt Ltd (100% subsidiary).

Key Financial Indicators

Consolidated	FY2021	FY2022	FY2023
Operating Income (OI)	836.9	4,964.5	11,449.0
Profit after tax (PAT)	(41.1)	(59.8)	(106.8)
OPBITDA/OI	(4.9%)	(0.8%)	0.6%
PAT/OI	(4.9%)	(1.2%)	(0.9%)
Total outstanding liabilities/Tangible net worth (times)	0.4	0.8	1.4
Total debt/OPBITA (times)	(6.9)	(60.7)	44.7
Interest coverage (times)	(1.5)	(0.3)	0.2

Source: Company, ICRA Research; All ratios are as per ICRA calculations
OPBIT – Operating profit before interest, tax, depreciation and amortisation
Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Trust Name	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Instrument	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Nov 06, 2023	-	-	-
1	**Corporate Receivable Securitisation Trust**	Series A1 PTC	37.50	37.50	**Provisional [ICRA]A+(SO)**	-	-	-
		Series A2 PTC	7.50	7.50	**Provisional [ICRA]BBB+(SO)**	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Series A1 PTC	Moderately Complex
Series A2 PTC	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

Trust Name	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
Corporate Receivable Securitisation Trust	Series A1 PTC	To be issued	11.00% or less	21 months post issuance	37.50	Provisional [ICRA]A+(SO)
	Series A2 PTC		14.00% or less		7.50	Provisional [ICRA]BBB+(SO)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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